

CAREFREE PARK CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1997 AND 1996
SEE ACCOUNTANTS' COMPILATION REPORT

5. LONG-TERM DEBT (CONTINUED)

	<u>1997</u>	<u>1996</u>
Balance carried forward	\$ 307,668	\$ 352,356
Note payable to a bank with interest at 9%, monthly principal and interest payments of \$1,495, secured by real estate and personally guaranteed by one of the shareholders, due November 2004.	92,681	101,703
Note payable to a bank with interest at 8.81%, adjusted every three years based on U.S. Treasury Note rates, payments based upon 25-year amortization, monthly principal and interest payments of \$14,893, secured by certain real estate and equipment, personally guaranteed by all of the shareholders, due December 2002.	<u>1,758,435</u>	<u>1,653,820</u>
Less – current portion	2,066,103 <u>69,603</u>	2,006,176 <u>68,292</u>
	<u>\$1,996,500</u>	<u>\$1,937,884</u>

Maturities of long-term debt are as follows:

Year Ending December 31,

1998	\$ 69,603
1999	74,742
2000	78,922
2001	83,482
2002	1,689,163
Thereafter	<u>70,191</u>

\$2,066,103

Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of long-term debt was \$2,066,103 and \$2,006,176 for the years ended December 31, 1997 and 1996, respectively.

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6. LOANS PAYABLE -- SHAREHOLDERS

Loans payable -- shareholders consisted of the following at December 31:

	<u>1997</u>	<u>1996</u>
Shareholders -- various non-interest bearing notes with no repayment terms.	<u>\$325,897</u>	<u>\$325,897</u>
Accrued interest -- shareholders	<u>\$ 14,337</u>	<u>\$ 14,337</u>

This debt is subordinated to the finance company and bank indebtedness.

Accrued interest expense paid for these notes was \$553 during 1996. There was no accrued interest expense paid during 1997.

7. RELATED PARTY TRANSACTIONS

The Company is part of a controlled group, with an officer-shareholder controlling both corporations.

As more fully described in Note 2, the Company has a receivable from its affiliates for \$17,275 and \$28,275 at December 31, 1997 and 1996, respectively.

As more fully described in Note 6, the Company owed the shareholders \$325,897 at December 31, 1997 and 1996.

The Company's shareholders have guaranteed the indebtedness as more fully described in Notes 3, 4 and 5.

As more fully described in Note 8, the Company was the lessee of property with a related party.

As more fully described in Note 8, the Company was the lessor of its property to a related party, from which the Company has a receivable of \$75,540 at December 31, 1997.

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8. OPERATING LEASES

As Lessee

The Company paid \$39,000 in rent expense during 1996 for property located in Massachusetts. The lease is with a related party and there was no written agreement. As of December 31, 1996, the Company came to an agreement with the related party that they would no longer pay rent for this property.

As Lessor

The Company currently leases some of its property in Massachusetts and Florida to non-related parties under various month-to-month operating leases. The rental income from these leases amounted to \$125,050 and \$180,416 during 1997 and 1996, respectively. There are no future minimum lease receipts from these leases as of December 31, 1997.

On January 1, 1997, the Company began leasing some of its property in Florida to a related party. There is no written agreement for this lease. The rental income from this lease was \$489,601 for 1997. As of December 31, 1997, \$75,540 of this rental income is reflected in rent receivable. There are no future minimum lease receipts from this lease as of December 31, 1997.

9. INCOME TAXES

The components of the provision for income taxes consisted of the following at December 31:

	<u>1997</u>	<u>1996</u>
Federal income taxes	\$ 11,610	\$ 2,199
State income taxes	839	997
Deferred taxes due to timing differences	<u>33,960</u>	<u>25,635</u>
	<u>\$ 46,409</u>	<u>\$ 28,831</u>

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9. INCOME TAXES (CONTINUED)

The components of the long-term deferred income tax liability consisted of the following at December 31:

	<u>1997</u>	<u>1996</u>
Deferred tax liability	\$162,710	\$117,140
Deferred tax asset	(<u>13,615</u>)	(<u>2,005</u>)
Net deferred tax liability	<u>\$149,095</u>	<u>\$115,135</u>

The tax provision differs from the expense that would result from applying statutory rates to pre-tax financial statement income because of depreciation methods and estimated useful lives of the property and equipment.

The Company has available at December 31, 1997 unused federal investment tax credits of \$10,173 expiring in 2000. The Company also has unused alternative minimum tax credits of \$13,615.

10. CASH FLOW INFORMATION

The Company had the following noncash financing transactions:

Purchase of equipment through installment obligations of \$72,459 in 1996.

A note payable obligation was repaid in full through the issuance of another note payable of \$24,802 in 1997.

During 1997 the Company traded in equipment towards the purchase price of new equipment and received an allowance value of \$19,663.

11. CAPITAL STRUCTURE

As of December 31, 1997, the Company had 100 shares of \$400 par value common stock issued and outstanding. Common shares are voting and dividends are paid at the discretion of the Board of Directors.

Bigelow & Company

Certified Public Accountants, P.C.

Accountants' Compilation Report on Supplementary Information

To the Board of Directors
Carefree Park Corporation
Salisbury Beach, Massachusetts

Our report on our compilation of the basic financial statements of Carefree Park Corporation for the years ended December 31, 1997 and 1996 appears on page 1. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the financial statements and, accordingly, do not express an opinion or any other form of assurance on them. The information included in the accompanying Schedules of Operating Expenses is presented only for supplementary analysis purposes. Such information has been compiled from information that is the representation of management without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.



BIGELOW & COMPANY
Certified Public Accountants, P.C.

September 11, 1998

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CAREFREE PARK CORPORATION

SCHEDULES OF OPERATING EXPENSES

SEE ACCOUNTANTS' COMPILATION REPORT ON SUPPLEMENTARY INFORMATION

	<u>Years Ended December 31,</u>	
	<u>1997</u>	<u>1996</u>
Depreciation	\$ 251,713	\$ 205,042
Real estate taxes	122,415	178,764
Insurance	40,788	42,417
Repairs and maintenance	40,269	14,113
Supplies	24,826	59,619
Utilities	24,363	44,130
Wages	22,325	62,255
Amortization	12,226	5,864
Equipment parts	11,607	39,121
State sales taxes	10,664	16,127
Equipment rental	3,133	9,450
Legal and accounting	2,615	12,946
License fees	2,272	5,916
Payroll taxes	2,048	5,596
Bank charges	1,239	3,222
Office expense	1,205	1,649
Transportation	635	400
Advertising and promotion	438	11,459
Penalties	337	454
Rent	<u>-</u>	<u>39,000</u>
	<u>\$ 575,118</u>	<u>\$ 757,544</u>

The accompanying notes are an integral part of the financial statements